Colorado Department of Revenue
Taxpayer Service Division
08/11

FYI Income 17
Credit for Income Tax Paid to Another State

GENERAL INFORMATION
If a taxpayer has income that was earned and is taxable in another state, but was received while a resident of Colorado, the income is taxed in both states, which results in the income being taxed twice.

To alleviate this double taxation, Colorado residents can claim a credit for taxes paid to another state. [§39-22-108, C.R.S.]

In order to claim the credit, the taxpayer must file Colorado Forms 104 and 104CR. A copy of the tax return filed in the other state must be submitted with the Colorado 104 return. The credit is limited to the smaller of the Colorado tax calculated on the income from sources in the other state or the actual tax paid to the other state on such income.

COMPUTING THE CREDIT
The easiest way to complete the 104CR is to follow these steps:
1. Complete the federal income tax return.
2. Complete the income tax return for the other state.
3. Complete the Colorado Form 104.
4. Use the following instructions to determine the amounts that should be entered on the 104CR.

Form 104CR, Modified Colorado Adjusted Gross Income from Sources in the Other State
This is the amount of the federal adjusted gross income earned from sources in the other state that is subject to tax by both states. This amount must be reduced by any Colorado “subtractions from federal taxable income” and increased by any Colorado “additions to federal taxable income” (from Form 104) to the extent they apply to this income.

Form 104CR, Total Modified Colorado Adjusted Gross Income
This is the total amount of the federal adjusted gross income (including AGI from sources in other states) plus and/or minus the Colorado “additions to federal taxable income” and “subtractions from federal taxable income” that apply to this income. The Colorado additions and subtractions that apply to itemized or standard deductions (state income tax addback, conservation easement deduction, qualifying charitable contribution, etc.,) will not affect this computation.

Form 104CR, Net Tax Liability to the Other State
This is the tax liability to the other state reduced by any tax credits allowed by the other state.

Example 1: Taxpayer Brown, who is single and claiming the standard deduction, earned $3,000 in California but is a Colorado resident. Taxpayer Brown had a Colorado taxable income of $23,400 and a federal adjusted gross income of $32,150. The tax computed on the California tax return is $90.

Name of Other State - CALIFORNIA

Total Colorado tax and Alternative Minimum Tax	1,081.00
Modified Colorado adjusted gross income from sources in other state	3,000.00
Total Modified Colorado adjusted gross income	32,150.00
Modified AGI from the other state divided by the total modified AGI	9.331%
Colorado tax multiplied by AGI percentage	101.00
Tax liability to the other state	90.00
Allowable Credit, the smaller of previous two lines	90.00

Taxpayer Brown can take a Colorado tax credit for tax paid to another state of $90. On the personal credits line of the Colorado Form 104 he would enter $90. He must complete Form 104CR and submit a copy of the California return.

PART-YEAR RESIDENTS OF COLORADO

A part-year resident will generally not claim the credit for tax paid to another state because the income is usually taxed only by the state of residency when the income is earned. However, if income is earned from sources in the other state while the taxpayer is a Colorado resident, then it may be taxed by both states. If this is the case the tax credit can be claimed. The computation of the credit for taxes paid to another state by a part-year resident is more complicated than it is for a full-year resident and the different computations are explained below.

Form 104CR, Modified Colorado Adjusted Gross Income from Sources in the Other State

This is the amount of income earned from sources in the other state during that part of the year that the taxpayer was a resident of Colorado. This amount must be the net of any Colorado subtractions reported on line 31 of the 104PN schedule to the extent they apply to this income. Do not include any income on this line that was earned while the taxpayer was a resident of the other state.

Form 104CR, Total Modified Colorado Adjusted Gross Income

This is the amount from the Colorado column of the 104PN schedule.

Form 104CR, Net Tax Liability to the Other State

Only include the tax paid to the other state on that portion of the income that is being taxed by both states. Do not enter any tax paid on income that was earned while a resident of the other state. This amount can be calculated by dividing that portion of the total income earned and taxed by both states by that portion of the total income earned and taxed only by the other state, then multiplying the result by the total tax liability in the other state.

Example 2: Tom moved from Kansas in June of 2007. He had wage income of $20,000 in Colorado and $14,000 in Kansas. He also had income of $4,000 from the rental of his Kansas home starting in July 2007. His Kansas tax liability for the year was $600 on his $18,000 Kansas income. His 104PN and 104CR would be completed as follows:

Form 104 PN – Part-year/nonresident Form		
Lines:		
Form 104PN	**Federal column**	**Colorado column**
4 Wages	$34,000	
5 Colorado Wages		$20,000
16 Rental Income	$4,000	
17 Colorado Rental Income		$4,000[1]
20 Total Income	$38,000	
21 Total Colorado Income		$24,000
32 Modified AGI	$38,000	
33 Modified Colorado AGI		$24,000
34 Percentage		63.158%
35 Tentative Tax		$1,424
36 Apportioned Tax		$899
Credit for tax paid to Kansas from Form 104CR		
Colorado Tax	$899	
Colorado AGI from other state	$4,000	
Colorado AGI	$24,000	
$4,000 / $24,000	16.667%	
$899 x 16.667%	$150	
Kansas tax	$133 ([$4,000/$18,000] X $600)	
Allowable credit	$133	

NONRESIDENTS OF COLORADO

A nonresident of Colorado cannot claim a credit for tax paid to another state in Colorado. A nonresident may be eligible for a similar credit in his/her state of residence.

[1] This is reported as Colorado income even though it is a Kansas rental property. It is Colorado income because it was earned while the owner was a resident of Colorado. Because it is considered both Kansas income (its state of source) and Colorado income (income earned by a Colorado resident), the tax paid on this income generates a credit for tax paid to Kansas.

INCOME AND/OR LOSSES FROM TWO OR MORE OTHER STATES

The total credit for taxes paid to other states may not exceed the Colorado tax attributable to the total non-Colorado source income. If taxes were paid to two or more states, or if income and/or losses are incurred in two or more other states, a separate credit must be computed for each state to which taxes are paid and a limitation computation must be done for all income and/or losses received from other states. The credit will be the lesser of:

- The total of credits computed for each state to which taxes are paid,
- The credit computed using the combined tax paid, income, and losses from all other states.

Example 3: Ann is a Colorado resident who has business income from three other states. Her Colorado adjusted gross income is $78,000. Her income from Nebraska is $43,000, her income from Utah is $32,000 and her loss from Iowa is <$17,000>. Her Colorado tax is $2,917. The credit for taxes paid to another state is computed as $1,608 for Nebraska, $1,197 for Utah and $0 for Iowa, which results in a tentative credit of $2,805. However, if the non-Colorado source income is totaled and divided by the Colorado adjusted gross income, the actual credit that can be claimed after the limitation is $2,169 ($58,000/$78,000 x $2,917).

TAXABLE INCOME MODIFIED BY THE OTHER STATE

The credit for tax paid to another state is computed on the Colorado income that is actually taxed in both states. When income is modified in the other state but not in Colorado, the modification must be taken into consideration when computing the tax credit.

Example 1: Stan is a Colorado resident who reports $10,000 of business income earned in California on the Colorado and federal returns. However, California requires an additional $3,000 in bonus depreciation to be included in taxable income on the California return. Stan's modified Colorado adjusted gross income from sources in the other state is $10,000, not the entire $13,000 that was subject to California tax. The net tax liability from California that will be used in computing the credit will be the net tax on the $10,000 business income, and will not include the additional California tax computed on the $3,000 disallowed bonus depreciation. This calculates the tax credit on the income taxed by both states ($10,000) and the tax paid to California on only that income.

Example 2: William is a Colorado resident who sells property in Iowa and recognizes a $50,000 net capital gain on the sale. However, Iowa allows a capital gain subtraction of $35,000, effectively taxing only $15,000 of the gain. William's modified Colorado adjusted gross income from sources in the other state is $15,000, not the full $50,000 gain. The net tax liability from Iowa that will be used in computing the credit will be the net tax on the $15,000 of taxable income.

SUBMIT REQUIRED DOCUMENTATION

A copy of the tax return must be submitted for each other state when claiming this credit. The entire return is not always required, particularly if numerous schedules are required by the other state. The portion of the return submitted must include the adjusted gross income calculation, any disallowed federal deductions by that state, and the tax calculation for the other state.

The department recommends that taxpayers submit the required documentation electronically by either attaching it to the e-filed return (if the software allows) or by submitting it online at www.Colorado.gov/RevenueOnline. However, if the documentation can only be submitted by paper, please mail it along with the E-Filer Attachment Form (DR 1778).

If the return is not filed electronically, the documentation must be attached to this schedule and submitted with the Colorado Form 104. However, due to the complexity of the credit computation, particularly when more than one state is involved, the department strongly recommends filing returns that include this credit electronically. Filing on paper may delay the processing of any refund.

104CR information **must be resubmitted** when filing an amended return. However, the copies of the state returns do not have to be resubmitted if they do not change and they were originally submitted electronically or with form DR 1778. If the copies of the state returns were originally submitted with a paper return only, then copies should also be attached to the amended return.

COMMON QUESTIONS

A taxpayer is a full-year resident of Colorado, but earned income working in another state that does not have a state income tax. How does the taxpayer get credit for the tax computed on this income in Colorado?

There is no credit for this income. As a full-year Colorado resident the taxpayer must pay Colorado tax on all of the taxable income. The credit for taxes paid to another state prevents double taxation of income by two states and will not apply in this situation since the other state is not taxing the income.

A taxpayer is a full-year Colorado resident and has interest and pension income being paid to them from another state. Will the credit for taxes paid to another state benefit the taxpayer?
No, interest and pension income is generally taxed only by the state of residence and should not be taxed by the other state.

A taxpayer has paid tax to several other states through an S corporation, both as part of a composite return in some states and through an S Corporation tax in other states. Can the taxpayer claim the credit for taxes paid to another state for any of these taxes paid?
Yes, the credit is available for **income taxes** paid on the taxpayer's behalf by an S corporation. The credit must be computed separately for each state and can only be claimed for income taxes paid. Taxes such as Michigan's single business tax do not qualify for this credit because they are not considered income taxes. Since copies of each state's composite or corporate returns are generally not available to shareholders, submit a copy of the statement of taxes provided by the S corporation.

Is the credit available for taxes paid to the District of Columbia or other countries?
The credit is available for taxes paid to the District of Columbia and territories or possessions of the United States. It is not available for taxes paid to cities or to other countries.

If a Colorado resident receives income from sources in another state, but pays income tax to that state in a different year than the income is taxable to Colorado, is the credit for taxes paid to another state available?
No. In order to claim the credit for taxes paid to another state, the tax paid to the other state must be computed and paid in the same taxable year as the tax is computed to be due for Colorado. For example, wage income is earned in the other state in 2005 but received in 2006. The other state requires the income to be reported in 2005 but the income is reported federally and to Colorado in 2006. In this situation a credit is not available.

A taxpayer had a loss in another state, but that state's tax return instructed the taxpayer to enter $0 as the net taxable income. Does the taxpayer use the actual loss or the $0 reported when computing the credit limitation for two or more states?
If the loss is reported at the federal level (as is almost always the case) the actual loss must be used when computing the credit limitation.